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OFFICE OF  
INSURANCE COMMISSIONER

*In The Matter Of:*

FARMERS INSURANCE EXCHANGE  
AND TRUCK INSURANCE EXCHANGE,

Authorized Insurers

No. D07-96

CONSENT ORDER  
LEVYING A FINE

To: Farmers Insurance Exchange  
Truck Insurance Exchange  
4680 Wilshire Boulevard  
Los Angeles, California 90010

*Comes Now the Insurance Commissioner of the State of Washington, pursuant to the authority set forth in RCW 48.02.080, RCW 48.44.160, and RCW 48.46.135, and makes the following:*

**FINDINGS OF FACT:**

1. Farmers Insurance Exchange and Truck Insurance Exchange are authorized to issue disability, property, marine and transportation, vehicle, casualty, and surety insurance in Washington.
2. The examination covered the Companies' commercial operations from January 1, 2004 through December 31, 2004.
3. The market conduct examination of Farmers Insurance Exchange and Truck Insurance Exchange was adopted by the Insurance Commissioner by Order Adopting Report of Market Conduct Examination No. G06-7, entered February 14, 2006, which order is final.
4. Approximately four hundred (400) checks for claims on Farmers Insurance Exchange policies were issued on Truck Insurance Exchange check stock between January 1, 2004 and August 31, 2005;

5. Five (5) claims files contained correspondence that did not identify the insuring company or identified the wrong insuring company;
6. One (1) policy was rated based on incorrect information received from the agent. When the risk was surveyed the corrected information was not incorporated into the next two policy periods. This resulted in undercharging the insured;
7. Sixty four (64) policies were rated incorrectly due to an error in the rating program, resulting in refunds totaling \$10,743.50 to insureds;
8. One (1) policy was issued charging an unfiled rate for the liability limits;
9. The Companies did not notify 7,397 insureds of increases in premium. The Companies did, however, send a complete set of policy documents at each renewal, with a cover letter that pointed out changes in policy provisions;
10. Three (3) files contained notices to the insured that failed to specify the actual reason for the Company's decision to cancel or non-renew the policy in clear and simple language that does not cause a reasonable insured to need to inquire further to determine the reason;

Based upon the foregoing Findings of Fact, the Commissioner makes the following:

## **CONCLUSIONS OF LAW**

1. RCW 48.05.185 authorizes the Insurance Commissioner to impose a fine in lieu of or in addition to suspension or revocation of a company's license for a violation of the Insurance Code.
2. Farmers Insurance Exchange and Truck Insurance Exchange committed the following violations of Washington law:
  - a. The Companies' use of Truck Insurance Exchange check stock for payment of 400 Farmers Insurance Exchange settlements and five instances where claims files contained correspondence that misidentified the insurer violated RCW 48.05.190(1);
  - b. The Companies' issuance of policies with either unfiled rates or with rates that differed from the filed rates violated RCW 48.19.040 (1) and (6);
  - c. The Companies' failure to notify 7,397 policyholders in writing, at least twenty days prior to their policies' expiration, of their willingness to renew and the premium amount due violated RCW 48.18.2901;

- d. The Companies' issuance of three (3) cancellation/non-renewal notices to consumers that did not contain sufficient information for the insured to understand the Company's decision to deny, cancel or non-renew the policy, in clear and simple language, so that the insured or applicant will not need to resort to additional research to understand the real reason for the action, violated RCW 48.18.2901(1)(a) and WAC 284-30-570.

## **CONSENT TO ORDER**

NOW, THEREFORE, Farmers Insurance Exchange and Truck Insurance Exchange consent to the following in consideration of their desire to resolve this matter without further administrative or judicial proceedings, and the Insurance Commissioner consents to settle the matter in consideration of the Companies' payment of a fine and such other terms and conditions as are set forth below:

1. The Companies consent to entry of the foregoing Findings of Fact and Conclusions of Law as they pertain to these facts, consent to the entry of this Order, and waive further administrative or judicial challenge to the OIC's actions related to the subject matter of the Order;
2. Within thirty days of the entry of this Order, the Companies agree to pay to the OIC a fine in the amount of \$100,000, \$25,000 of which is suspended pending no further violation of the statutes and regulations that are the subject of this Order;
3. The Companies will carry out and fulfill the requirements of the Compliance Plan which is attached hereto for a period of two years;
4. The OIC will not impose the balance of this fine nor take action against the certificate of authority of Farmers Insurance Exchange and Truck Insurance Exchange should they commit isolated, de minimis violations of the statutes or regulations that are the subject of this Order during the suspense period, as determined by the OIC. Farmers Insurance Exchange and Truck Insurance Exchange commit to rectifying such violations promptly once they are discovered;
5. Whether further violations of the statutes and regulations that are the subject of this Order, and whether they are isolated or de minimis, will be determined within the sole discretion of the OIC. Farmers Insurance Exchange and Truck Insurance Exchange understand and agree that any future failure to comply with the statutes and regulations that are the subject of this Order constitutes grounds for further penalties that may be imposed in direct response to that further violation, in addition to the imposition of the suspended portion of the fine;

6. The suspended portion of this fine will be imposed at the sole discretion of the OIC, according to the conditions set forth above, without any right to advance notice, hearing, or appeal. Failure to pay the unsuspended portion of the fine as set forth above shall constitute grounds for revocation of Farmers Insurance Exchange's and Truck Insurance Exchange's certificates of authority.

EXECUTED this 7<sup>th</sup> day of May, 2007. *mn for R. Myhan*

FARMERS INSURANCE EXCHANGE

By: *Ron Myhan*

Typed Name: RONALD G MYHAN

Typed Corporate Title: SENIOR VP & TREASURER

TRUCK INSURANCE EXCHANGE

By: *Ron Myhan*

Typed Name: RONALD G. MYHAN

Typed Corporate Title: SENIOR VP & TREASURER

**ORDER OF THE INSURANCE COMMISSIONER**

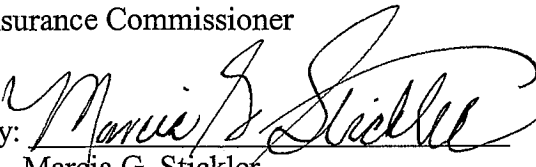
NOW, THEREFORE, pursuant to the foregoing Findings of Fact, Conclusions of Law, and Consent to Order, the Insurance Commissioner hereby orders as follows:

1. Farmers Insurance Exchange and Truck Insurance Exchange are ordered to pay a fine in the amount of \$100,000, \$25,000 of which is suspended pending compliance with the statutes and regulations that are the subject of this Order for a period of two years.
2. The Companies will abide by the terms and conditions of the Compliance Plan attached to and made a part hereof for a period of two years.
3. The Companies' failure to pay the unsuspended portion of the fine within thirty days of the entry of this Order shall result in the revocation of the Companies' certificates

of authority and in the recovery of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED AT TUMWATER, WASHINGTON, this 11<sup>th</sup> day of May, 2007.

MIKE KREIDLER,  
Insurance Commissioner

By:   
Marcia G. Stickler  
Staff Attorney  
Legal Affairs Division

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## COMPLIANCE PLAN

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## A. Purpose of and Consideration for the Plan

Farmers Insurance Exchange and Truck Insurance Exchange (hereinafter "Farmers" and "Truck") enter into this Compliance Plan with the Office of the Insurance Commissioner ("OIC") for the State of Washington to promote compliance by the Companies with the requirements of the laws and regulations of the State of Washington. Farmers and Truck are also entering into a Consent Order No. D07-96 with OIC ("Consent Order"). This Plan is attached to the Consent Order and is fully incorporated into said Consent Order, and Farmers' and Truck's obligations under this Compliance Plan are made a part of the Consent Order and constitute obligations under said Consent Order as though this Compliance Plan and the Companies' obligations under it were fully set forth in said Consent Order.

## B. Term of Plan

The effective date of this Plan shall be the date of entry of the Consent Order, on which date this Plan shall become final and binding. Farmers' and Truck's obligations under this Compliance Plan shall continue from its effective date until termination of the period during which conditions are imposed by the Consent Order.

## C. Compliance Plan

## 1. Internal Audit

- a. Information to OIC: The Companies will conduct two semi-annual audits per year, the first during July of 2007 and the second during January of 2008. The Companies have established an annual audit plan and have taken corrective actions with regard to the violations included in the Consent Order and as set out in Bennett Katz's April 14, 2006 letter to Commissioner Kreidler, which is attached to and incorporated within the terms of this Compliance Plan. Copies of each internal audit report on the two semi-annual audits per year to be performed during the period of this Plan shall be provided to Christine Tribe of the OIC Legal Affairs Division within thirty business days of the report being issued. Reports shall be issued no later than thirty calendar days following the completion of each audit.
- b. Internal Audit Obligations: Farmers and Truck shall provide their staff conducting the audit with the Consent Order and shall direct their audit personnel to include the areas of violation in the semi-annual audits conducted pursuant to this Compliance Plan.
- c. Audit Scope: Each semi-annual audit shall encompass at least fifty (50) files, or all of files if there are less than fifty available, for each of the violations listed in the Consent Order. Each file audited must involve Washington insureds.

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- d. Correction of Exceptions: Any exception or deficiency identified by the internal audits conducted pursuant to this Plan shall be corrected. Farmers and Truck agree to advise OIC within thirty (30) days of the audit report of any corrective measures contemplated to address any such exceptions or deficiencies or any other areas requiring correction. The OIC shall then review these measure(s) and notify Farmers and/or Truck of any comments associated thereto within thirty (30) days. Unless the OIC requests modifications to the proposed corrective measure(s), Farmers and Truck shall have thirty (30) days from the end of the OIC's review period to implement the measure(s). However, should Farmers and Truck need longer than thirty (30) days to correct any exception or deficiency, the Companies may contact the OIC Legal Affairs Division and request an extension to the thirty (30) day requirement.

## D. Miscellaneous

1. Authority to Enter Plan: Farmers and Truck give express assurance that under applicable laws, regulations and where applicable, its Articles and By-Laws, it has the authority to comply fully with the terms and conditions of this Plan, and that it will provide written notification to the other parties within ten days of any material change to this authority or of any violation of this Plan.

## FARMERS INSURANCE EXCHANGE

BY: Roy L. Trevino  
TITLE: VFA - Chief Compliance Officer  
DATE: 5/8/07

## TRUCK INSURANCE EXCHANGE

BY: Roy L. Trevino  
TITLE: VFA - Chief Compliance Officer  
DATE: 5/8/07